



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

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May 20, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

Board of Supervisors
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MARK RIDLEY-THOMAS
Second District

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Third District

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Fifth District

PHARMACEUTICAL COST SAVINGS INITIATIVE

This Office and the Department of Health Services (DHS) have been engaged in an effort to identify ways to reduce pharmaceutical expenditures and maximize savings throughout Los Angeles County, and this is to provide your Board with updated information regarding this initiative.

BACKGROUND

Over the past two years, DHS initiated innovative strategies to manage the rising cost of pharmaceuticals in DHS operations. While DHS has had tremendous success in implementing savings through pharmacy management, we had not previously taken the opportunity to examine the potential for extending such practices to other County Departments which purchase pharmaceuticals.

While a majority of the County's pharmaceutical costs are within DHS, there are significant pharmaceutical costs within the Department of Mental Health (DMH), Probation, and Sheriff, and to a lesser extent in the Department of Public Health (DPH). In an effort to identify whether potential cost savings could be realized within the other four Departments, this Office requested that the DHS Pharmacy Division review current pharmaceutical expenditure trends and identify areas for potential savings. It is possible that the proactive strategies implemented by DHS may also be utilized by other County Departments to reduce their pharmaceutical costs.

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The development of pharmaceutical management within DHS was the result of a careful review of business processes and identification of prioritized target areas where savings might be realized. Through oversight from the DHS Pharmacy Division, DHS modified processes for pharmaceutical purchasing and drug formulary review, creating a central structure for system review and replacing a former and outdated silo-based approach. In addition, identification of opportunities to increase access to pharmaceutical vendor patient assistance programs also resulted in savings.

STATUS

The DHS Pharmacy Division has been working closely with the four Departments over the past several months, and they have collected budget, expenditure and usage trend data in order to recommend areas where potential pharmaceutical savings may be obtained. Part of the analysis will include a review of three years of pharmaceutical purchases, annual budgets, current formulary policies and processes, established patient assistance programs, purchasing and contracting processes, generic dispensing percentage, management of pharmaceutical vendor conflict of interest and the use of formulary management tools for each of the four departments.

The DHS Pharmacy Division's review found that the five Departments distribute pharmaceuticals in different ways. While DHS operates onsite pharmacies through hospital and outpatient pharmacy locations, DMH primarily utilizes a community pharmacy network for medication dispensing, where DMH reimburses local pharmacies for the cost of medication provided to uninsured patients and a dispensing fee. The local pharmacies bill Medi-Cal directly for pharmaceutical costs for Medi-Cal eligible patients. The Sheriff's and Probation Departments operate similar to DHS, with medications dispensed to inmates and juveniles through an onsite pharmacy. Public Health operates a central pharmacy that oversees medication dispensing at County-operated public health clinics.

The initial assessment has been positive. On the basis of the DHS assessment, the Sheriff's Department has reduced its 2009-10 Proposed Budget pharmaceutical costs by \$1.0 million, which helped offset a portion of its net County cost curtailment. However, it is anticipated that there will be small savings, if any, within DPH, which spends only \$1.5 million annually on the purchase of pharmaceuticals. Savings within DMH will also be limited, as DMH already has an effective pharmaceutical purchasing structure in place. DHS and this Office are continuing our review of the Probation Department's pharmaceutical costs to determine potential savings.

DHS will provide appropriate follow-up reports as to this initiative, including the additional projected savings to be realized.

Each Supervisor

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If you have any questions or need additional information, please contact Mason Matthews of this Office at (213) 974-2395 or Amy Gutierrez, DHS Pharmacy Director, at (213) 240-7712.

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MLM:MM:yb

c: Executive Office, Board of Supervisors
 Department of Health Services
 Department of Mental Health
 Department of Public Health
 Probation Department
 Sheriff's Department

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